

He cares for you my child.  
 All He wants is your heart.  
 Please give your heart to Jesus without delay.  
 You will be glad you did,  
 On that final judgment day.  
 Your name will be written in the Lamb's Book of Life.  
 No more heartaches, no more dark nights.  
 Our heavenly Father will be your shining light.  
 Yes, Jesus makes house calls, night and day.  
 All you have to do is bow your head and pray.

### TAIWAN'S NATIONAL DAY

#### HON. STEVEN R. ROTHMAN

OF NEW JERSEY

IN THE HOUSE OF REPRESENTATIVES

Thursday, October 7, 2004

Mr. ROTHMAN. Mr. Speaker, I rise today in support of Taiwan's National Day, which will be celebrated on October 10, 2004. People in the United States and around the world have always marveled at the modern miracle that is Taiwan and the enormous political and economic successes that it has achieved. As we approach Taiwan's National Day, it only seems appropriate that we congratulate our Taiwanese friends on their many successes.

In just 50 years, Taiwan has transformed from a poor authoritarian dictatorship into a vibrant modern democracy. Last March, Mr. Chen Shui-bian was re-elected the eleventh president of the Republic of China. This was the third democratically-held election for the people of Taiwan. A firm believer in the free enterprise system and the importance of democratic governance, President Chen's leadership has enabled his people to enjoy one of the highest standards of living in Asia, with only 1 percent of its population remaining below the poverty line in 2000. Taiwan has also continued to make steady progress at expanding democracy in this republic: it currently has more than 95 political parties and a Constitution that guarantees its citizens full political rights, including the freedom of speech and the freedom of assembly.

Taiwan is a strong ally of the United States. It has unequivocally supported the U.S.-led war against global terrorism and the U.S. war in Iraq. And we, in turn, have given Taiwan our pledge that Taiwanese way of life should not be threatened by any outside forces. This strong mutual relationship is manifested in many ways. Taiwan is our eighth largest trading partner. The Taiwanese people continue to demand a variety of U.S. exports and consistently choose the United States as their number one travel destination. In fact, every year thousands of Taiwanese people come to my own state, New Jersey, for vacations as well as for business purposes. I am confident that the strong relationship between the United States and Taiwan will continue to grow stronger in the years ahead.

On the occasion of Taiwan's forthcoming National Day, I wish to recognize Taiwan's many economic and political achievements and express my congratulations to President Chen Shui-bian and to the Taiwanese Ambassador to the U.S., Mr. David Lee.

### LETTER REGARDING CONFERENCE REPORT TO H.R. 4520

#### HON. WILLIAM M. THOMAS

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, October 7, 2004

Mr. THOMAS. Mr. Speaker, I would like to insert in the RECORD, the following letter concerning the Conference Report to H.R. 4520, the "American Jobs Creation Act of 2004."

DEPARTMENT OF THE TREASURY,  
 INTERNAL REVENUE SERVICE,  
 Washington, DC, October 7, 2004.

Mr. GEORGE K. YIN,  
 Chief of Staff, Joint Committee on Taxation,  
 Washington, DC.

DEAR MR. YIN: Enclosed are the combined comments of the Internal Revenue Service and the Treasury Department on the new deduction relating to income attributable to domestic production activities contained in the Conference Committee Report on the "American Jobs Creation Act", that you identified for complexity analysis in your letter of October 6, 2004.

Our comments are based on the description of the provision provided in your letter, and the statutory language and description of this provision in the Chairman's Mark for the Conference Committee on H.R. 4520, dated October 4, 2004, as posted on the House Ways and Means Committee web site. Due to the short turnaround time, our comments are provisional and subject to change upon a more complete and in-depth analysis of the provision.

Overall, the conference report provides new tools that will assist the IRS in administering the tax laws. However, thus far in the appropriations process, I would note that Congress has not taken favorable action with regard to the request for incremental enforcement resources for the IRS in the President's FY 05 budget request. As noted in the attached analysis, IRS will face additional challenges and resource requirements in administering the proposed domestic production activities credit.

Sincerely,

MARK W. EVERSON,  
 Commissioner.

Enclosure.

COMPLEXITY ANALYSIS OF PROVISION FROM  
 H.R. 4520, AMERICAN JOBS CREATION ACT OF  
 2004

DEDUCTION RELATING TO INCOME ATTRIBUTABLE  
 TO DOMESTIC PRODUCTION ACTIVITIES

#### Provision

The provision provides a deduction from taxable income (or, in the case of an individual, adjusted gross income) that is equal to a portion of the taxpayer's qualified production activities income. For taxable years beginning after 2009, the deduction is equal to nine percent of the lesser of (i) the qualified production activities income of the taxpayer for the taxable year, or (ii) taxable income (determined without regard to this section) for the taxable year. For taxable years beginning in 2005 and 2006, the deduction is three percent of income and, for taxable years beginning in 2007, 2008 and 2009, the deduction is six percent of income. However, the deduction for a taxable year is limited to 50 percent of the W-2 wages paid by the taxpayer during the calendar year that ends in such taxable year.

For purposes of determining the deduction, qualified production activities income is equal to domestic production gross receipts, reduced by the sum of (a) cost of goods sold allocable to such receipts, (b) other deductions, expenses, or losses, directly allocable

to such receipts, and (c) a ratable portion of deductions, expenses, and losses not directly allocable to such receipts or another class of income.

The provision is effective for taxable years beginning after 2004.

#### IRS and Treasury comments

Administration, Compliance and  
 Controversy

The new deduction for domestic production activities will require the promulgation of extensive, detailed new guidance, particularly in the form of regulations. We anticipate that guidance will be required to address:

1. Which activities constitute production activities;
2. The statutory exceptions to the definition of production activity;
3. The allocation of revenues between production and non-production activities;
4. The allocation of deductions between production and non-production activities;
5. The application of the provision when related and unrelated taxpayers perform parts of the production activity; and
6. Numerous other issues.

We expect that such guidance will be difficult to craft. By distinguishing "production" from other activities, the provision places considerable tension on defining terms and designing anti-abuse rules.

Many businesses, particularly small businesses, will find it difficult to understand and comply with these complex new rules, which will affect not only the computation of a taxpayer's regular tax liability but also its alternative minimum tax liability. It will be difficult, if not impossible, for the IRS to craft simplified provisions tailored to small businesses or other taxpayers.

Taxpayers will be required to devote substantial additional resources to meeting their tax responsibilities, including not only employees and outside tax advisers, but also recordkeeping and systems modification resources. The resulting costs will reduce significantly the benefits of the proposal. Some small businesses may find that the additional costs outweigh the benefits, particularly during the initial phase-in period.

It will be necessary to devote significant audit resources to administering the new deduction. This will be due not only to the novelty of the rule but also to the benefits that are provided to "production activities" over other aspects of a taxpayer's business. Taxpayers naturally will classify everything possible as production activities. Audits, particularly those involving integrated businesses, will have to focus on classification and the allocation of income and costs. Significant additional IRS resources will be needed to administer the provision to avoid diverting resources from other compliance issues (such as tax shelters).

Finally, for all of the reasons discussed above, we anticipate a significant increase in controversies between taxpayers and the IRS. This will increase the number of IRS appeals cases and litigated tax cases.

#### Tax Forms and Publications

The computation of the deduction relating to income attributable to domestic production activities would be figured on a new form for 2005 of at least 10 lines. The instructions for the new form would likely be at least 3 pages.

Two additional lines would have to be added to each 2005 form or schedule on which the deduction from the new form could be claimed. The deduction would be claimed on the following forms and schedules, among others.

1. Schedule C (Form 1040) (sole proprietors);